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DIRECTORATE OF
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LAOS: Prime Minister Souvanna Phouma has defeated a challenge from right-wing politicians in the National Assembly.

Failing to win significant support for a resolution calling for the resignation of the Souvanna government, the rightists were forced on 22 May to accept a face-saving motion that asks the government to respect the constitution. The tougher resolution was promoted by members of the powerful Sananikone family, who were trying to pressure Souvanna into making important changes in the cabinet. Among their targets was the minister of finance, whose actions have hurt Sananikone economic interests, and some leftist neutralists.

The rightists were also pushing Souvanna to fill cabinet posts that are being held open for the Lao Communists as part of the tripartite government set up under the Geneva Accords of 1962. Souvanna has consistently resisted such proposals because of his desire to maintain a framework for bringing the Communists back into the government under favorable circumstances. [REDACTED]

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PERU-US: A dispute involving a Standard Oil Company of California affiliate could develop into an obstacle to continued improvement in Peruvian-US relations.

The Peruvian Finance Court has ruled in favor of the military government's claim that the Conchan Oil Company owes millions of dollars in back stamp taxes and is now liable for a five-percent stamp tax on its future gross sales. The company expects to receive a bill for \$3 million this week; failure to pay will result in an embargo of its assets. Conchan's president claims the company lacks the resources to pay the judgment, and that Standard, which owns 50 percent of the company, will not assume financial responsibility in this case.

Although a combination of stretched-out payments and a higher retail price for gasoline might enable Conchan to stay in business and pay the taxes, the government now seems less than anxious to work out such a deal. Some kind of negotiated outcome is likely in the long run, however, because the Velasco regime probably realizes that the financial gains to be reaped from the seizure of Conchan stand to be heavily outweighed by the potential damage to its relations with the US. [REDACTED]

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NOTES

INDIA-USSR: Moscow has delivered MIG-21 jet fighters to India, probably as replacements for those lost in the Indo-Pakistani war. This is the first major arms shipment to India since the war.

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[redacted] three MIG-21 Fishbed Js were recently assembled. These aircraft were probably part of a shipment of seven MIG-21s that arrived in Bombay in late March. The MIG-21 Fishbed J export variant has an improved weapons capability and combat radius over the MIG-21 that is currently manufactured in India. [redacted]

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EL SALVADOR - HONDURAS: Secret negotiations at the foreign minister level appear to be showing results, and both sides are hopeful that a general peace treaty, including settlement of the disputed portion of the border, can be signed before Salvadoran President Sanchez leaves office on 1 July. El Salvador's acting foreign minister says that the areas of difference have been narrowed to perhaps only 60 or 70 kilometers and that the meeting tomorrow in Guatemala will be crucial. The greatest obstacles to acceptance of the draft treaty remain the inflexibility of Honduran President Cruz and the chaotic state of his government. Cruz, an international lawyer, feels that Honduras has the stronger claim to the disputed areas and favors submitting the question to arbitration rather than seeking a negotiated settlement. He is, however, more a figurehead than a president and could cause only a temporary delay if most of the real centers of power--the military, businessmen, labor leaders, and the major parties--agree to the settlement.

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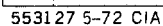
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(C) VIETNAM: Communist forces continue to push against government positions north of Hue, although they were stopped from advancing yesterday by South Vietnamese marines. In the central highlands, the situation at Kontum City remains quiet. To the south, government troops have made contact with North Vietnamese troops blocking Route 14, and government territorial forces have retaken a fire support base that was overrun on 22 May. North of Saigon, the 21st Division, moving to relieve An Loc, is still about one mile south of the town. Enemy attacks yesterday kept it from making any further progress, but the government troops inside the town are reported to have expanded their perimeter on the north and the west and to have surrounded two small Communist enclaves. [REDACTED]

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